> most of the listed services would be new, any initial tariff would not be subject to suspension and, with the banded rate capability, USWC could have considerable pricing flexibility. . . . TRACER believes that the business case for offering these services is compelling and there is no reason the Commission will need to "buy" them with decision that are not otherwise appropriate or in the public interest. This and other cases should be resolved on their own merits.

The Commission understands the Constitutional requirements for its conduct of regulation, and it understands the need to provide a regulatory climate that allows the Company to conduct its operations, attract investment, and provide adequate service to ratepayers. We believe that the Commission meets those needs. We modified depreciation schedules in response to the Company's demonstrated need to respond to changing technology and competition,[14] and again in this Order we afford the Company the opportunity to earn a fair return.

The Company must also recognize its own obligation to make investment in the State. During the period of AFOR[15] regulation in the early 1990's, the Company earned and kept millions of dollars more than its authorized return, yet during that period was reducing its investment in the State.[16] Some of the Company's present service problems appear to stem from its failure to invest sufficient capital or human resources. Based on past experience, we are not confident that granting rate increases or increasing the Company's earnings by itself will guarantee citizens of the State more investment or better service.

One of the Commission's greatest concerns is that the Company provide top-quality service to the residential and small business customers who presently have almost no alternative service providers.[17] It is essential that the Company meet its obligation under the law to provide adequate service. As Staff witness Blackmon pointed out, more than anything else, that means making the investments in capital and personnel necessary to make service available. We are most concerned that the Company make investments that produce near-term results in basic service. Market rewards offer strong incentives to the Company to increase investment that allows it to develop and offer competitive services. The Company must also invest a sufficient amount in the facilities that are needed to maintain quality service to its residential and small business customers.

We agree with Public Counsel's suggestion that it is important for us to establish a

---

[14] Docket No. UT-951425

[15] AFOR stands for "Alternative Form of Regulation" as provided in state statutes.

[16] We described this "disinvestment" in our Fifteenth Supplemental Order in Docket UT-950200, at p. 12.

[17] Some members of the public testified for the Company proposal and some testified against it. Witness were almost unanimous, however, in their support of the need for increased investment.

means to monitor the Company's investment. Our preference would be to obtain that information on an exchange-by-exchange basis so we could match service problems with investment. We understand that there may be limits to how the information can be provided, and are aware of confidentiality concerns as well. Therefore, we direct the Company, Commission Staff, and Public Counsel to discuss how such a report may be structured and ask them to present an agreed statement in this Docket no later than 90 days after the date of this Order. The agreement may be approved or modified by letter from the Commission Secretary. In the absence of agreement, they will submit individual proposals by that date and the Commission will decide the nature and format of the report by order without further hearing.

Commission Staff correctly states the Commission's goal for a regulatory and business climate in the state -- one that fosters efficient investment in the telecommunications network. The Commission will insist on quality service and will set USWC rates based on consistent legal principles that will permit the Company to earn a fair return on investment.

III. REVENUE REQUIREMENTS

A. Approach and Analysis

In ruling upon the revenue adjustments, the Commission considers the context of this proceeding, the Commission's support for negotiation and settlement, and the fact that the Company did pursue negotiation and achieve agreement with Commission Staff.[18]

The Commission is charged under the law with exercising its discretion in regulating the rates and services of public service companies. We cannot abdicate that responsibility when matters are presented to us for decision and we cannot delegate decision-making to others. We can evaluate matters that are presented to us for decision, including approaches to individual adjustments, by considering all the relevant information -- including the fact and the result of settlement discussions.[19] We require verification by credible evidence that the decisions we make are sufficient both legally and in the application of common sense.

The Commission considers the negotiation and settlement discussions between the Company and Commission Staff not as evidence in support of a result, but as a factor to consider in weighing evidence to reach a result.

---

[18] Staff Witness Dr. Blackmon acknowledged on cross examination that the result of the process did not meet Commission Staff's expectations regarding acceptance of the agreement. We encourage Staff in future proceedings to pursue broader participation as a means to improve others' acceptance.

[19] The Commission generally considers much of the information about settlement discussions to be privileged. In this matter, parties testified candidly and without objection about settlement discussions in ways that assist us in evaluating matters.

The Company and Commission Staff stipulated to an approach to the case; they stipulated to some of the specific adjustments; and they agreed to a revenue requirement proposal that the Commission Staff witness testified was, in his professional judgment, all things considered, a sound and appropriate level for purposes of this proceeding. The Company and Commission Staff supported the specifics of the proposal with an adequate factual record, enabling us to make a knowledgeable decision.

Commission policy favors settlement and negotiation. This *does not* mean that the policy pursues settlement at any cost to a company or to the public interest. It *does* mean that reasonable people, acting reasonably and consistently with principle, can often reach accommodations that satisfy the interests of all -- and that also serve the public interest. It is our job to make the determination of public interest and to apply principles rationally and consistently to achieve results that serve the public interest.

B. Public Counsel Proposed Adjustments

Public Counsel proposes several adjustments to the Company's results of operation (which are already adjusted per agreement with Commission Staff). We will address the Public Counsel adjustments individually.

1. Incentive Compensation

In Docket No. UT-950200, the Commission rejected the Company's proposal to consider its "team and merit award" incentive program as an allowable expense in setting rates. Even though the financial and service elements were weighted equally in the basic program, it was structured in such a way that employees could overcome the loss of all service incentive awards by obtaining bonuses for company earnings in excess of the target, still receiving an incentive award at or near the maximum possible if all goals were exceeded. The Commission determined that the plan failed to provide proper incentives for employees to pursue service goals and disallowed the item as an expense for ratemaking. The order authorized the Company to revisit this issue upon a demonstration that the program's emphasis on financial goals to the possible exclusion of service goals were changed -- offering some suggestions for change -- and upon a demonstration that service quality had "substantially" improved.[20]

The Company and Commission Staff now point to changes in the Company's incentive program and ask that the Commission allow costs of the current program. Under the current program, employees cannot achieve a maximum incentive payment by exceeding financial goals without achieving service quality goals. Weighting in the basic program is changed so that 60 percent of the incentive payment is based on financial achievement and forty percent is based on achieving service goals. Under the program's bonus system, employees can achieve a near-maximum total bonus from exceptional financial performance even if they achieve no bonus for service quality.

---

[20] Fifteenth Supplemental Order, pages 49 and 134.

Staff Witness Glenn Blackmon testified that the changes removed the most offensive aspect of the earlier program, the possibility of eclipsing poor service with financial achievement. He encouraged the Commission to "avoid micromanagement" in this area and here allow the Company to establish a program within very broad limits. He and the Company agreed that salaries must be competitive to attract quality personnel, and that many companies choose to use incentive programs as an element of employee compensation. Neither the Company nor Commission Staff, however, contended that the Company's service quality had improved to the point that would qualify under the prior order's authorization to revisit the issue. The Staff witness acknowledged that service remains "less than adequate."

Public Counsel opposes the proposal. He notes first that service quality has not improved substantially, and thus this proposal is not an acceptance of the prior order but a request for change. He notes that the incentive program is not measured on service quality achievement in Washington, but throughout the Company's 14-state system. And he notes the decreasing emphasis on service quality by the reduction in emphasis from 50 to 40 percent. He urges that the Commission reject the proposal. TRACER notes that while there has been some improvement in USWC's service quality, it is not at the level the Commission would consider adequate; nor at the level before the AFOR plan was implemented. Public Counsel's witness, Mr. Brosch, concluded, "We now have a perverse incentive to maximize corporate cash flow, by minimizing new network investment and increasing depreciation accrual rates."

The Commission finds Public Counsel's arguments valid, and denies the request to change the prior order. The order was very clear that the Commission considered the salary incentives relevant to service quality and that the basic structure of the team and merit award program was flawed. The plan sent incentives in directions that were counter to ratepayer interests, and the Commission demanded "substantial" service improvement before it would consider a corrected program. The service quality goals are not met, and we decline to modify our order.

We should note that in the broadest sense we accept Mr. Blackmon's observation that incentive programs should generally be within the discretion of Company management and that the Commission generally does best by leaving incentives to management as one of the appropriate tools for operating a business. Our disallowance of this element in the prior order reflected both our frustration at unacceptable quality of service and our frustration that the plan seemed to exacerbate the service problem rather than support its correction. The Order is clear about the problems we saw with the plan and how to cure them. See, page 49, Fifteenth Supplemental Order.

Without ruling on the issues, we are concerned that while the present plan may address, in a very small measure, the prior plan's principal flaw, it accepts none of the Commission's suggestions of ways management could use the plan to signal the importance of service quality. It fails to tie awards to improvements in service quality in this state and it reduces the weight given service quality in the basic plan structure. Finally, it is not clear that the plan is sufficient in meeting the Commission's principal concern. As Public Counsel states in its brief:

> . . . [The ability of zero service quality performance to be offset sufficiently to still allow a 135 percent overall incentive payout indicates that the plan weighs financial performance independently in a manner that allows USWC to pay more than a normal 100 percent payout with no emphasis upon service quality.

We encourage the Company to consider improvements to the plan that will convince the Commission that the plan operates without any disincentives toward service quality improvement. If called on to evaluate the plan in the future, the Commission will weigh service quality performance and other management decisions that demonstrate a strong and objective Company emphasis on achieving service quality improvement, including management decisions that demonstrate Company willingness to devote capital and personnel that are needed to achieve a true and long-lasting resolution of the Company's unacceptable, less-than-adequate performance.

The Company's policy witness, Ms. Jensen, stated the Company's intention to approach the Commission later in 1998 with the intention of adjusting the Company's authorized rate of return from the bottom to the midpoint of the range that the Commission found appropriate. The Commission does not foreclose the Company from bringing this matter back to us at the same time in a limited reopening of the prior proceeding, as anticipated in the Fifteenth Supplemental Order. However, we remind the Company that the Commission tied both the rate of return adjustment and the incentives adjustment to substantial improvement in the Company's service quality.[21]

The remaining adjustments speak to the Company's results of operation during the test period. All parties who addressed the Company's results of operation shared a single goal -- to reach the appropriate relationship between revenues, expenses, and rate base. Rates established upon that kind of relationship will give the Company the opportunity to earn a fair return on its investment during the period rates are in effect, while protecting the Company's customers. With that, we will discuss each of the adjustments.

2. Revenue Annualization Correction

This adjustment is designed to annualize revenues when conditions indicate that an average of the test period revenues will not properly reflect the relationship between revenues and expenses. In UT-950200, the Commission accepted Mr. Brosch's adjustment to use the fourth

---

[21] For example, we said, at page 28,

The Company will be expected to demonstrate that its service quality in terms of held orders, in terms of missed or incomplete appointments, in terms of repair service in compliance with rule, and in terms of customer complaints to the Commission, all have returned to and remain stable at levels comparable with the Company's experience prior to 1991 and consistent with other local exchange companies in the State. The petition will be particularly persuasive if Commission Staff and Public Counsel join in it.

quarter of calendar 1994, multiplied by four, as the proper figure based on conditions facing the Company that included rapidly rising revenues. In that case, the test year included the last two months of 1993 operations and the first ten months of 1994 operations, so the adjustment included the last month of the test period and the following two months.

Commission Staff in this case agreed that an adjustment was needed, and used the last quarter of calendar 1996, times four, for the adjustment. Mr. Brosch again used the last month of the test period, plus the following two months. The Company and Public Counsel each cite the 1996 order for the defining principle to apply here -- which they describe as, alternatively, using the last quarter of a calendar year, or using the last month of the test year plus the next two months. Mr. Twitchell's adjustment has the effect of reducing the Company's revenue requirement by $10.8 million; Mr. Brosch's adjustment would reduce the Company's revenue requirement by an additional $5.9 million.

The principle that we applied in the prior order was that revenues should be adjusted to achieve the closest possible match to future relationships of revenue changes to changes in costs or additional rate base. Each of the proposed adjustments is therefore true to the principle in the order, but each uses a slightly different mechanism in pursuit of matching. Our purpose is to find the most accurate and most fair measure to both Company and ratepayer.

The record in this proceeding provides some support for each of the alternatives. Mr. Brosch's adjustment shows that revenues were higher during the three-month period he chose, over the earlier period that Staff chose. On the other hand, evidence shows that toll revenues are reduced. We do not see the same kind of compelling evidence in this record that we saw in UT-950200 that the relationships between revenues and expenses are changing so quickly and in such a certain direction that we need to look outside the test period.[22] Therefore we accept the Company-Commission Staff proposal.

Public Counsel elsewhere speaks to one of the problems that is inherent in this case. That is, revenues are calculated on the basis of the actual quantities sold, but assuming that the Commission-ordered rate reductions were in effect. Of course, they were not. It is possible that at the reduced rate levels, consumption would have increased and the Company's asserted revenue shortfall would not have been experienced or would not have been so pronounced. Public Counsel suggests starting with the actual revenues collected during the period when the stay barred rates from falling. That would be inappropriate. We are offered no way to quantify the stimulative effect of lower prices. The suggestion has intellectual merit but is incapable of calculation.

3. Overtime Expenses

The Company's test year results of operation include expenses for overtime.

---

[22] Mr. Brosch himself acknowledges that use of the last quarter of the test period for such an adjustment is an accepted regulatory mechanism: "For annualization of revenues the last quarter times 4 methodology has been widely used and accepted by regulators." (TR 932)

Commission Staff did not adjust the results to reduce overtime expense for regulatory purposes. Mr. Brosch proposes Adjustment PC-3 to reduce revenue requirement by $15 million.

In the prior proceeding, Commission Staff proposed an adjustment to reduce overtime expense. The Commission rejected it, stating that without a showing of extraordinary circumstances, it is management's responsibility to balance the use of full-time employees, contract employees, and overtime to achieve an optimum mix that will meet the Company's ongoing needs in the most efficient way.

Mr. Brosch notes that the level of overtime has increased since the prior case, and offers the adjustment to reduce it by $15 million to the level that the Commission approved in the prior order. He states that overtime in the 1996 test year, at $39.1 million, was much higher than "normal." Mr Brosch suggests that the amount allowed in the previous case be used unless the Company can demonstrate that the higher overtime expense in this case is reasonable. Public Counsel argues that USWC has made no suitable explanation why overtime increased.

The Company shows that the number of employees dropped between the two test years, and argues that the increase in overtime is consistent with the reduction. The Company also, through Mr. Bowling's rebuttal testimony, provides a discussion of workforce management and the factors that go into deciding how tasks should be accomplished.

The Commission finds no evidence that the Company is using its workforce options improperly or imprudently. Management must balance the wage and benefit costs of permanent or contract employees, the costs of training, and all of the costs of various options for getting the work done. The Company could hire permanent employees to accomplish the work done in the test year through overtime, in which case the salary expense would be greater. Merely because expenses are higher does not mean that they are improper. We find the Company's explanation reasonable, consistent with the evidence, and persuasive. We reject Public Counsel's proposed adjustment.

4. Uncollectibles Normalization

Uncollectibles are amounts that customers owe to the Company, but that it fails to collect, and that it writes off as being forever unable to collect. The Company's experienced level of uncollectibles during the test year -- $19.3 million -- is relatively high when compared with prior years' results.

Commission Staff insisted on an adjustment, as is appropriate in the absence of a demonstration that the test year amount represented an ongoing level that could not prudently be reduced. The amount eventually agreed as the appropriate expense level, after negotiation, was $13.4 million.

Public Counsel argues that this level should be reduced by an additional $1.2 million, to $12.2 million. He argues that this level results from three-year normalization. He also argues that a recently-approved late fee will achieve significant collections that are not considered.

The Company offered Mr. Culp's testimony in support of the agreed adjustment. Mr. Culp offered several reasons why the uncollectible level is higher in the test period than in prior years: consumer debt is at a very high level; collection agencies contracted by USWC were not meeting targets; customers' overall bills were higher, leading to higher uncollectibles; and industry statistics show that other RBOC's are experiencing increases in uncollectible expense.

Both adjustments address the same concern and are very similar in effect. The Commission accepts the Commission Staff adjustment. It is supported by the witness' professional judgment. That it is higher than Public Counsel's proposal is consistent with a higher uncollectibles level in the test year. Public Counsel argues that a newly-approved late payment fee will generate significant revenues or reduce uncollectibles. Because most customers pay in a timely manner and because there will be costs associated with the fee, we think it unlikely to produce a windfall to the Company; if it does, that may be recognized in a future proceeding. To the extent that the fee may have an effect on lowering uncollectibles, the Staff adjustment reflects that effect. The Commission accepts the Commission Staff adjustment, and rejects Public Counsel's proposal.

5. Contract Labor Expense Normalization

The Company's use of contract labor nearly doubled -- from $54 million to $100 million -- between the 1994 and 1996 test years. Public Counsel offers an adjustment to normalize and to reduce the expense by approximately $500,000.

The use of contract labor is one of the tools, along with regular work time and overtime, available to management in the balancing of work objectives and accomplishments. We reject this proposed adjustment for the same reasons that we rejected proposed overtime expense adjustment.

6. Storm and Flood Damage Normalization

Ice storms occurred during the test year in various parts of the Company's territories. The storms caused weather-related outages and damage, and expenses caused by the storms were higher than prior years. Both Commission Staff and Public Counsel proposed adjustments to reduce the Company actual levels to levels more reflective of ongoing expenses.

The Commission Staff adjustment, which the Company accepts, allows as proper any straight-time expenses, assuming that the associated staff have such activities as a part of their normal duties, and then reduces the remaining test year expense by 50 percent.

Public Counsel argues that the exclusion of straight time is improper, because the employees would be working on other projects but for the storms, and that it is better to average the expenses of several years to find a proper or "normal" level. The difference between the two proposals is small, with Public Counsel's proposed adjustment reducing revenue requirement by an additional $800,000.

All of the parties recognize that an adjustment is necessary. We accept USWC's argument that exclusion of straight time and associated costs could provide a small but perverse incentive to reduce resources devoted to customer service. In the Company's present posture with regard to customer service, we believe that it would be an improper incentive. We are not convinced in this proceeding that the number of years chosen for the Public Counsel adjustment produces a result any more accurate than the result of the Staff/Company proposal. They share a common purpose and are equivalent in overall effect. We accept the Company/Commission Staff proposal for purposes of this proceeding, and reject that proposed by Public Counsel.

7. Accidents and Damages Normalization

This oddly-titled adjustment addresses the account in which the Company records penalties that it must pay to interexchange carriers for failure to achieve billing and collections results that are specified in the contracts. Just as the Company has experienced a rise in uncollectibles relating to its own service, this expense shows the consequences under its contracts with other carriers for an analogous increase in problems in collections as their agent.

This Public Counsel adjustment would reduce the penalty expenses for ratemaking purposes by "normalizing" this expense in the same way Public Counsel proposed to reduce the expense for uncollectibles. Commission Staff proposed no adjustment and offered no comment on that of Public Counsel. The Company objects to Public Counsel's proposal, pointing to Mr. Culp's testimony that the expense was continuing at test year levels into 1997. The Company also urges that the contracts lower overall costs by removing the need to conduct costly audits for the interexchange carriers and that the billing and collection revenues would be lower without the incentive arrangement.

For purposes of this proceeding, we find the Company rationale better, and we reject this adjustment. On balance, the existing expense level is appropriate. In a future proceeding we will certainly examine this expense to determine whether revisions to the contracts would be prudent and whether the trends in billing and collections continue.

8. Provisioning Expenses/Inventory Adjustments

Provisioning expense is an additional expense that is added to the cost of an item in materials inventory. The expense is to recognize costs of procurement, warehousing, delivery, and overhead associated with inventory control. Periodic inventory adjustments to true up to physical inventory or for obsolete inventory items are made here. This account is a clearing account that leaves a residual expense on the books from one year to the next.

Public Counsel proposes an adjustment to normalize what he terms an "abnormally high" level of expense in this account. The Company responds by stating that the three-year average is not representative. It contends that the three year amounts of $905,595 in 1994, $161,825 in 1995, and $958,496 in 1996 show that 1995 was abnormally low rather than 1996 abnormally high. The Company points out that undercleared expenses that remain in the provisioning account expense understate the expenses in the "cleared to" accounts.

For purposes of this proceeding, we accept the Company rationale and reject the proposed adjustment. The Company sufficiently supported its view that the expense level is not abnormally high and that an adjustment is not warranted.

9. Uncontested Adjustments

Adjustment PC-9 is entitled BRI Property Management Accrual Correction and increases revenue requirement by approximately $700,000.

Public Counsel proposes this adjustment, which was agreed to by the Company at the hearing. It corrects an error in the Company's original calculations, and the Commission accepts it as proper.

Public Counsel also proposes Adjustment PC-6 to update and correct an "OPEB" Adjustment -- that is, an adjustment to correct expenses for out of period employment benefits, to reflect the fact that pension and other post-employment benefits must now be recorded at the time work is performed that will entitle employees to future benefits. The adjustment is agreed and reduces revenue requirement by $1.6 million.

10. Rent Compensation (Company Offset) Adjustment

The final adjustment at issue is one proposed by Mr. Culp to reflect changes in "rent compensation" expense as facilities in Washington State that serve customers in other states are allocated among the jurisdictions. Cause for the adjustment is the result of the Commission's depreciation represcription in Docket No. UT-951425.

The Company offered this as a contingent adjustment to correct an error in their presentation in the depreciation proceeding, asking us to consider it only if we decided to accept any of Mr. Brosch's adjustments to revenue requirements, made on behalf of Public Counsel. Because we do not accept any of those adjustments, we need not address this adjustment or the reservations that Public Counsel expressed about it.

C. Conclusion

We accept Public Counsel's adjustment to reject implementation of the incentive program and his two agreed adjustments. We reject Public Counsel's other proposed adjustments. We have stated our reasons for deciding each of the contested adjustments, and the facts of record that support our decisions. We note that the facts and circumstances of this case are unique, and therefore the decisions on contested adjustments are for purposes of this proceeding only.

D. Table: Results of Operation

U.S. West Communications
Washington Intrastate Operations
Twelve Months ended December 31, 1996

Line No			Commission Findings NOI	Commission Findings Rate base
1	NET OPERATING INCOME & RATE BASE - PER BOOKS		$79,043,883	$1,426,554,029
	Adjustments:			
2	RMA 1	Deregulated Radio	53,578	(754,309)
3	RMA 2	Merger Expense	8,426	(200,755)
4	RMA 3	AFUDC (Memorandum IDC)	(2,795,580)	23,919,859
5	RMA 4	Political Action Expense	16,233	0
6	RMA 5	Depreciation Refund Amortization	(3,003,285)	9,263,039
7	RMA 6	Depreciation Reserve	30,407,970	164,919,452
8	RMA 7	Flow Through of Non-Property Tax	(641,673)	29,099,640
9	RMA 8	OPEB	(263,382)	13,489,020)
10	RMA 9	Sharing Adjustments	0	(31,449,072)
11	RSA 2	Management Salary Annualization	(884,394)	0
12	RSA 3	Ordered Rate Reduction	(64,545,267)	0
13	RSA 4	Rent Compensation	808,067	0
14	RSA 5	Affiliated Interest Billing Adjustment	939,315	0
15	RSA 7	Federal Income Tax Adjustment	(268,948)	0
16	RSA 13	Team And Merit Award Adjustment	6,725,725	0
17	RSA 15	Property Tax Restatement	(307,781)	0
18	RSA 16	Flow Through Tax Restatement	5,558,442	(10,242,000)
19	RSA 17 Out of Period Adjustments:			
	OOP 3	Account Reconciliation	4,622,517	0
	OOP 9	Wireless Revenue Correction	121,355	0
20	RSA 18	Storm and Flood Damage	727,361	0
21	RSA 19	Right to Use Fees	647,119	0
22	PFA 1	Occupational Wage Increase	(3,621,442)	0
23	PFA 2	Management Salary Increase	(2,730,016)	0
24	PFA 3	Pension Asset	0	69,465,000
25	PFA 6	Capital Recovery	1,784,988	1,300,197
26	PFA 7	Rural Sales	0	(10,978,642)
27	PFA 8	Amortization of Debt Call Premium	539,257	0
28	PFA 9	Restructuring Adjustments	4,609,288	(32,800,618)
29	PFA 10	OPEB Curtailment costs	2,084,544	0
30	SA 1	Yellow Pages	55,284,464	0
31	SA 4	Market Resource Group	113,794	0
32	SA 5	Investor Supplied Working Capital	0	(81,923,244)
33	SA 7	BRI	2,062,293	0
34	SA 9	Regulatory Fee	3,680,862	0
35	C 1	Recurring Revenue	6,936,256	0
36	C 6	Bellcore Disallowance	1,110,266	0
37	C 16	Interest Synchronization	565,053	0
38	PC-6	Update and Correct OPEB Adj.	0	(10,809,820)
39	PC-9	BRI Property Mgmt. Accrual Correction	(416,292)	0

40	Total Adjustments	$49,929,113	$105,319,707
41	Net Operating Income and Rate base Adjusted	$128,972,996	$1,531,873,736

Derivation of Revenue Requirement

Pro forma Rate base	$1,531,873,736
Rate of Return	9.367%
Return Requirement	$ 143,490,613
Pro forma Net Operating Income	$ 128,972,966
Net Operating Revenue Deficiency (Surplus)	$ 14,517,617
Conversion Factor	1.568135
Revenue Deficiency (Surplus)	$ 22,765,583
Depreciation Represcription	$ 36,068,418
Gross Revenue Deficiency (Surplus)	$ 58,834,001

IV. SERVICE QUALITY ISSUES

As it was true in the prior case, service quality continues in this matter to be a principal concern of public witnesses, of the Commission Staff, of Public Counsel, and of the Commission.

In the 1996 Order, we directed the Company to achieve "significant" and "substantial" improvements in service quality, with its goal a level equivalent to the service it provided to subscribers in 1991, a period typical of prior service levels. Evidence in this case demonstrates some improvement from the 1995 levels that so infuriated public witnesses in the prior proceeding.[23] The evidence shows that quality of service is still many times poorer by pertinent measures than service the Company provided in 1991.

In response to service deterioration shown on the prior record, the Commission ordered the Company to establish a customer service guarantee that provides, among other things,

[23] The Commission acknowledges that improvement and the effort the Company has expended to achieve it. We also acknowledge that the majority of the Company's customers receive prompt and reliable service. That is little solace, however, to the unacceptably large number of customers who experience problems.

use of a cellular telephone or credit for cellular service when orders for primary line service are unfilled for longer than 30 days.[24]

A. USWC Service Quality Performance

Public Counsel, Commission Staff, and the Company all agree that the Company's service quality still needs to improve.

The Company contends that it has made significant progress toward a level of service quality that is acceptable to the Commission. Exhibit 157 shows improvements in 1997 over 1995 in handling out-of-service trouble reports and in reducing repair cycle time, held orders and overall service complaints. The Company also cites the testimony of Staff witness Vicki Elliott, who acknowledges a 32 percent reduction in customer service quality complaints (excluding network congestion complaints, which remain a concern) and a 37 percent reduction in held order complaints -- that is, orders that cannot be filled within the five-day period set by Commission rule.

Commission Staff agrees that certain categories of service quality complaints have decreased by 32 percent -- but points out that the number of those complaints are still *eight and one half times* the levels of 1991. Public Counsel also concede that complaints are decreasing from their historical high level but are still many times the 1991 levels. Held orders are *12.3 times* greater than the 1991 level of held orders.

Public Counsel contends that USWC has failed to demonstrate significant service quality improvements and should be required to make changes in its customer service guarantee, be disallowed the team and merit award recovery and should institute a comprehensive service quality index. Public Counsel says that trouble report rates when expressed as reports per 100 access lines are not improving and that the Company's record is uneven in meeting its commitments to customers for provisioning orders, making repairs and answering service center calls. By its own measure, the Company has an uneven record at simply meeting its own targets.

The Company contends that any comparison of complaint levels in different years must in fairness be adjusted to reflect comparable order activity. It takes issue with Commission complaint data as a measure of good service, noting that the Commission counts complaints from customers who were unhappy with the Company's handling of their problem even though the Company has complied with all of its obligations.

The Company believes the "relatively low" levels of attendance at the 1997 public hearings and its analysis of the customer letters indicate significant reductions in customer concerns over service quality. Public Counsel note that despite the abbreviated nature of the case and the relatively small increase, over 1,600 customers made the effort to express their

---

[24] An order for service that is not filled within the five-day period established as the standard in the Commission's rule.

dissatisfaction in this proceeding.

After review of the data, the Commission believes that the Company has not demonstrated significant or consistent improvement in service equality. Total service quality complaints in 1997 were projected to decrease by 8.7 percent from 1995. Even accounting for line growth, this improvement cannot be considered significant. When broken down into more specific complaints, the 32 percent decline in delayed orders is offset by the development of the new and troubling problem of network congestion. While there are signs of hope from the Company that long-term quality improvements are in store, the Commission accepts Commission Staff's observation that the improvements have not occurred rapidly enough or consistently enough to allow this issue to be put to rest. Correspondence and testimony at the Commission's public hearings provide ample anecdotal confirmation of this as well.

B. Additional Service Guarantees/Standards

Taking note of the continued high level of poor service indicators, Commission Staff recommends that the Commission take several actions to moderate the effect of service failures on customers and applicants for service, and provide additional incentives to the Company to continue its improvement.

1. Modification to Cellular Loan/Credit Program

Commission Staff notes that the "customer service guarantee" measures ordered in the prior order were established by order for an indefinite period. Staff recommends that the measures be made "permanent". They note that even if service improves, individual customers who suffer delays are still inconvenienced.

Commission Staff also recommends that each qualifying delayed service customer be sent a written description of the guarantee program. Public Counsel support this proposal. The Company states it is willing to notify customers of specifics of the customer guarantee program as soon as it becomes apparent that an order might be held longer than 30 days.

Commission Staff also recommends that the Company should be required to provide a cellular phone or cellular credits to any customer whose qualifying order for new or transferred lines is not completed within <u>five</u> business days, rather than the current 30 days. Commission Staff argues that this would avoid the problem experienced by customers whom the Company knows that it will not be able to serve for months, and who now must wait 30 days before they have access to a telephone or to credits. Staff contends that this change would also provide relief for persons whose problem unexpectedly continues past one or more target completion dates. The Staff proposal parallels the Company tariff in Oregon. Public Counsel support the proposal.

The Company is willing to provide the cellular telephone or credit earlier to any customer whose order is expected to be held beyond 30 days, but also wants such customers to have access to the other customer guarantee alternatives such as voice messaging. The Company opposes applying the cellular phone loan program to all customers with orders delayed only six days, contending that it would be burdensome to issue a cellular phone to a customer on the sixth day only to retrieve it on the eighth day, when the customer's wireline phone is installed.

The Commission accepts the substance of the Commission Staff proposal. The Company is directed to modify its Customer Service Guarantee program, with the changes advocated by Commission Staff. No matter what cut-off is established for eligibility for customer service benefits, there will always be persons whose service is provided shortly after that time. That fact is not a valid excuse for delaying customer service benefits. The five-day limit is consistent with the Commission's held order rule and with Oregon's program, and it assures persons whose orders for wireline service are unexpectedly delayed or is known to be problematic that they will have alternative service. The Company should be permitted and required to offer alternatives such as voice message service to customers who prefer it.

We were dismayed at the number of members of the public who reported that they did not learn about the customer service guarantee program in a timely manner. All eligible customers must be advised promptly of the availability of the program. The Company must establish a process to assure that eligible customers are apprised of the program and their eligibility by the end of the fifth day after placing the order. We direct the Company to work with Commission Staff to develop an effective, efficient, agreed mechanism and we direct that they file a joint report within 30 days after this Order or, in the absence of agreement, individual reports by that deadline.[25]

2. $50 Missed Appointment/Commitment Payment

Commission Staff recommends that the Company be directed to provide a $50 customer credit for missed appointments and commitments based on Exhibit 112, the provision recently adopted for Puget Sound Energy in Docket UE-960195. Commission Staff contends that this is not a penalty, but is in the nature of compensation to the customer to recognize the time and the inconvenience occasioned by the missed appointment and the inconvenience of missed commitments. Public Counsel support this proposal.

Commission Staff contends that the cost will not be burdensome if the Company responds by altering its scheduling process and improving its performance in ways that reduces missed appointments and missed commitments. The Company projects that the Commission Staff proposal will cost $7.8 million annually. The Company opposes the credit, but would voluntarily offer such a provision if the Commission adjusted the company's rate of return to the authorized midrange level of 9.627 percent. The Company believes a specific remedy for missed appointments is better than constraining the Company's earnings. Further, the Company would

---

[25] The time may be extended, if good cause is shown, by letter from the Commission Secretary.

prefer that the $50 be rewarded in the form of discretionary services, rather than credits to local service. The Company cited Mr. Blackmon's willingness to allow the Company to offer $50 credit on any services so long as the offering is not anticompetitive.

TRACER believes the $50 for missed appointment is good in principle but is inadequate for many business and institutional customers. TRACER suggests the Commission remove provisions of USWC's tariff that limit liability for damages caused by its own negligence. The Commission might order a payment in a specific amount as liquidated damages as an alternative to a customer having to demonstrate to the court the amount of actual damages suffered.

The Commission accepts the Commission Staff proposal to require the Company to establish by tariff a missed appointment/commitment program analogous with that of Puget Sound Energy. The customer may apply the credit to the entire bill for Company services or to services of the customer's choice, but the tariff should restrict the Company from suggesting services for application of the credit or inquiring whether the credit might be applied to certain services. If the customer does not specify, the credit should be applied to the customer's total bill for USWC charges, exclusive of taxes, fees, and charges billed by the Company on behalf of others.

We acknowledge possible validity in TRACER's observation that costs of missed appointments or commitments may be higher for business customers than for residential customers, but observe that missed appointments may cause a variety of problems in a wide range of personal and business situations. The payment is not intended to be precisely compensatory but rather a recognition of customers' lost time and inconvenience. All utility of the proposal would be lost if the remedy were tied to actual expenses or damages, or were to require fact finding as to whether it were sufficient compensation.

We acknowledge also that changing times may well require a thorough review of the policy against responsibility in damages for Company acts or omissions. At least one of the Company's interconnection arbitration orders recognized as much. But that should await a full review. We are concerned that premature abandonment of the limitation on liability might merely become charges to be passed along to captive customers.

We will observe the effect of this provision on Company behavior. We expect that the Company will schedule appointments, make commitments, and assign staff more realistically, so that it will avoid the need to offer the credit in the vast majority of circumstances.

We reject the Company's proposal that the Commission adjust its rate of return in exchange for voluntary missed commitment payment. Mr. Blackmon was accurate, we believe, in noting that service quality is in large measure a function of decisions about investment and staffing that are made in the Company at the highest levels. The rate of return reduction and the disallowance of the incentive program are uniquely able to get the attention of those persons. Unlike the customer service guarantee and the missed commitment payment, the return reduction and the incentives disallowance are in little danger of becoming just another cost of doing business. Company management has the power to achieve the reinstatement of both elements. It must start with the investment and staffing decisions that will assure quality service.

3. Public Counsel/AARP Proposed Service Quality Index

Public Counsel and AARP join in urging that the Commission adopt a service quality index. They contend that the guarantees of alternative service and missed appointment compensation alone are not a viable response to Company's overall service performance. The guarantees, they say, provide a remedy only to the customers who have already been harmed but do not provide incentives to the Company to prevent harm to all consumers. They propose establishing a comprehensive service quality index ("SQI"), contending that an index to be developed in future workshops would provide a set of protections for individual customers as well as targets for Company performance. They urge that such an index would be a useful step should the Company move to an alternative form of regulation.

Commission Staff opposes the Public Counsel proposal, arguing that this is not the right proceeding and such an index, if needed, should be carefully crafted to avoid creating the wrong incentives. The Company opposes the contention that Washington's service standards lag behind the nation. It argues that Dr. Raymond's review does not take into account service quality rules in all of the states and urges that many of the states listed as models do not have more than four of the 10 targets listed.

The Commission is not opposed in principle to the suggestion of an index, and commends the efforts of the witness. We agree with Commission Staff, however, that this is not the proceeding to implement such an index. We will observe Company performance in the near future as well as the context of competition and regulation in which that performance takes place.

A service performance index may well be an appropriate tool in the future. In particular, if discussions aimed at instituting another AFOR take place, it is essential that mechanisms be developed that will provide appropriate and effective incentives for the Company to maintain adequate levels of service among customers who have few realistic competitive alternatives. The index may be one element among others that might offer effective incentives for quality consumer service. The Commission may also consider implementing an index in a general rate case or a review of the Company's eligibility for rate of return and incentives adjustments.

C. Conclusion - Service Quality

The Company's service quality remains a matter of grave concern to the Commission. We recognize the improvement since the Company's prior rate order -- but when an improvement by one-third leaves the Company some seven to nine times worse than its performance in 1991 we cannot characterize the improvement as substantial or significant. We institute the Staff suggestions improving and further institutionalizing the customer protection plan, and we direct the Company to institute the $50 missed appointment/commitment payment.

We encourage such activities as strengthening the Company's Ombuds program; Staff Witness Elliot described elements she has identified in effective programs. The Company's program was not well-known even by Company executives.

V. RATE DESIGN

A. Policy Issues

Among the policy issues affecting rate design are universal service goals, the extent to which customer classes or services not only meet costs but make a relative contribution to the Company's general costs of doing business, and continuing the policies established in the prior rate proceeding.

We share the perspective stated by Dr. Blackmon. The just-affirmed earlier order will operate to move long distance rates (including access charges) down and to narrow the gap between business and residential local service, whose underlying costs are similar. Pricing anomalies that developed under monopoly conditions will be substantially reduced, though not eliminated. Prices will better reflect the cost of providing each service, a factor also emphasized by TRACER. A principal goal for the Commission is that rates for basic local service continue to be affordable. In separate dockets, the Commission is addressing areas that require more work -- particularly on access charges and universal service -- but with this case and the conclusion of Docket No. UT-950200, the Commission will make substantial progress toward establishing rates for USWC that are sustainable under competitive conditions.

We appreciate Public Counsel's acknowledgment that the policy goals we must pursue in designing and setting rates are sometimes in tension, and trust that parties who may not agree with how we weigh the competing policies and align the goals will respect that we do so on the basis of our expertise and our views on balancing those goals.

B. Specific Services

1. Directory Assistance

All parties agree that the charge for directory assistance should be raised. We accept the proposal to increase it to 60 cents per call. The parties expressed disagreement about whether to continue including a limited number of calls in the customer's basic monthly charge, and whether, as Commission Staff suggests, to require the Company to waive charges on certain unsuccessful requests for information.

We approve the increase to 60 cents per call. We reject the Commission Staff proposal to waive charges; the Company opposes it as administratively difficult to administer and as a potential source of expensive capital requirements. The record is devoid of actual information about costs and about the methodology by which the waiver would be effected. The proposal may make sense to us in a future proceeding and upon a more informative record.

We recognize the function of uncharged calls as a surrogate for waiver of fees for unsuccessful calls. We believe that an allowance of one call, per line, per month, is adequate to satisfy that function and we will not eliminate the allowance for residential customers. We address below TRACER's proposal for an additional change in business directory assistance.

The impact of increasing the charge to 60 cents and reducing the "free" allowance for all customers is approximately $7.7 million. The remaining revenue requirement was spread between business and residential customers on an equal amount per line, $2 per month.

2. Residential

a. Recurring Rates, Flat and Measured

After determining the revenue requirement for residential service, we decided to increase the flat rate for residential service by $2.00 per month. While certainly significant, the increase is not excessively large, which is consistent with the goals of affordability and universal service. The resulting rate better reflects an equitable sharing of the costs of providing service, including shared and common costs. It reduces the disparity between residential and business service, and thus moves toward rates that are sustainable in a competitive setting. This decision is consistent in general terms with the proposals or comments of the Commission Staff, TRACER, and the Company.

Public Counsel contends that in adopting an equal dollar increase, we would be making a marked and inadvisable change from the principles implemented in the prior case. We disagree. We pursue the same principles. We do not depart from our assessment of costs in the prior case, but reaffirm it. Public Counsel cites language from the UT-950200 order relating only to direct costs that illustrates our finding there that the rate we established in that order, given the revenue surplus determined in the order, was proper. We continue our belief that it was proper to give captive ratepayers a part of the benefit of the revenue surplus by holding to the prior revenue level[26] and rejecting any increase. With the residential rate cost-justified, and no revenue deficiency to meet, leaving the revenue level unchanged was proper.

In this case, we rely on the same cost relationships. In this order, however, we find a revenue deficiency that must be met, and the competing goals of correcting disparities and preparing for a competitive marketplace, that we must also meet. Our decision best balances the

---

[26] Some customers saw changes in their bills because the Commission established a statewide average rate for service.

competing policies and interests in light of the realities demonstrated in this proceeding.

We place no reliance on asserted average national prices. We have outlined above the principles that affect our actions. Applying those principles to the facts as demonstrated on this record, we are confident that our decision is fair to all ratepayers, is sound, and is most consistent with the public interest.

b. Charges for Second Line

Public Counsel urges that we assign a higher increase to a customer's second line than to the first line. He reasons that it is the first line that is essential, and that because the second line is discretionary it could support a higher rate. We reject that view. As Commission Staff points out, it is inconsistent with movement toward competitive pricing.

c. Measured Service

The Company offers measured local residential service at a discounted basic rate, plus a per-minute charge for local usage. It proposes to assign a lower increase to this service, preserving its relationship with flat-rated service. The Commission agrees that it should reflect a lower increase than the flat-rated services, and directs that it be increased $1.60 per line, with no change in the per-minute charge.

3. Business -- Monthly Flat Rate; Directory Assistance Charges

We start with the amount allocated to business as discussed above, approximately $2 per business line.

TRACER suggests that business customers forego the "free" call that is included in their monthly rate. It recognizes that the revenues generated by the first call each month would satisfy a portion of the Company's revenue requirement. TRACER then asks that the Commission recognize that business customers are making that contribution and reduce the business flat line rate in proportion to that revenue.

We find TRACER's proposal acceptable in principle. It is revenue neutral; it assesses the costs of directory assistance upon those who use it; and it allows all business customers to be free of the costs for including a service in monthly rates that only some use. The result is a business rate increase of $1.60.

4. Switched Access

Public Counsel proposes raising $7 million by increasing access charges which, he contends, when combined with the rate decreases in the prior rate case, still represents a significant reduction for access charges from the prior rates, still effective under the stay. Doing so would avert the need to increase residential rates.

The Company, Commission Staff, TRACER, MCI, and AT&T oppose the proposal. They all make the same general comment that the contribution from access is already excessive and that the rate needs to move even closer to cost.

We reject the proposal. It runs afoul of the need to move prices closer to costs. Access charges continue at a level much higher than costs in an era in which prices must move toward costs. The proposal is denied.

C. Other Disputed Issues Concerning Rate Design

1. Consideration of Future Growth

Public Counsel proposes that some of the revenue requirement be accounted for by considering some of the growth in access lines. No party contested the observation that the number of access lines in Washington is growing.

Public Counsel proposes to designate a portion of the Company's revenue requirement be satisfied through new products and service revenues. Public Counsel argues that the Company has specific 1997 goals to increase revenue and margin and to increase revenue contribution for new products. The Company, he argues, has a track record that is sufficiently strong to give confidence that even if it lags behind other companies today both in penetration of current services and in the offering of new services, it has the capacity to satisfy a small portion of its revenue requirement in the manner proposed by Public Counsel.

The Company takes issue with these proposals. It maintains that the proposed "cost offset" does not represent what the Company will face in 1998. For instance, it argues, the TSLRIC cost calculation was not based on the latest technology and methods and is not likely to represent the costs incurred for providing service in growth areas.

Commission Staff also opposes the proposals and suggests that if they are to be considered, it should be treated as part of the calculation of revenue requirement. Staff points out that Public Counsel fails to consider offsetting costs and expenses that must be included in the calculation.

The Commission finds that Public Counsel's proposal for line growth fails to consider expenses that are incurred with growth, and it thus fails a basic regulatory test. The Commission has adjusted already to match the proper revenue level with expenses (see the discussion, above). As to the new services proposal, at this point, it is speculative what services the Company will be marketing during 1998 and beyond, it is speculative whether revenues can be reasonably estimated for such services, and it is speculative what level of costs would be associated with the services. We reject the proposal.

2. WTAP

The Company initially proposed that it withhold increases from customers who are subsidized by WTAP, that is, the Washington Telephone Assistance Program. WTAP provides a financial subsidy to low-income persons.

As residential rates rise, WTAP and other programs will be more important in maintaining lifeline type, reduced-rate service for low-income persons. The evidence in this record demonstrates that, while the WTAP program at its present funding level will be solvent for several years, it is a program used by a relatively small proportion of the persons who are eligible for it. Rate increases may lead to greater penetration of the program among the eligible consumers as well as a higher subsidy per line. It is also possible that as telephone service moves closer toward competition, the price of residential service will move closer to the business rate and to equivalent contributions. We think that it is prudent to consider potential problems that the two factors may bring.

We are concerned with the impact of any rate increase on low income citizens. We appreciate the Company's efforts, but we see no financial need in the program at this time that would require us to accept the Company's proposal. The program will assure that WTAP customers will receive no increase.

We encourage all those concerned with the program -- citizens, Commissioners, the Company, legislators -- to work together to assure that the program remains healthy and available to all who need a subsidy to maintain their telephone service.

VI. FINDINGS OF FACT

Having discussed above in detail both the oral and the documentary evidence received in this proceeding concerning all material matters, and having stated the Commission's findings and conclusions upon contested issues and the Commission's reasons and bases therefor, the Commission now makes and enters the following summary of those facts. Those portions of the preceding detailed findings pertaining to the ultimate findings stated below are incorporated into the ultimate findings by reference.

1. The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, and transfers of public service companies including telecommunications companies.

2. USWC is engaged in the business of furnishing telecommunication service to the public within the State of Washington.

3. On August 29, 1997, USWC filed with the Commission under Advice No. 2887-T, revisions to its currently effective Tariff WN U-31, with a stated effective date of

September 29, 1997. The intended effect of the tariff revisions and of associated proposed increases to services whose tariffs were stayed under court order is an annual increase in the Company's revenue of approximately $69.4 million. The filing was assigned Docket No. UT-970766.

4. By order entered September 10, 1997, the Commission suspended the tariff filing in Docket No. UT-970766, instituted a Commission Staff investigation, and ordered that hearings be held on the reasonableness of the revisions. The Commission served the notice of hearing pursuant to the requirements of law.

5. The test period consisting of the calendar year 1996 is an appropriate period to examine for the Company's results of operation and should be adopted as the test year.

6. Adjustments pursuant to findings and reasoning in the body of this Order will portray the Company's test year results of operation properly for regulatory purposes.

7. The Company's quality of service as measured by indicators described in the body of this Order remains markedly lower than it was in 1991. It is improved from the 1995 levels described in the Fifteenth Supplemental Order in Docket No. UT-950200 in terms of held orders, handling of out-of-service trouble reports, reducing repair cycle time, and overall service complaints. The overall improvement is not substantial or significant.

8. Information regarding investment by the Company that is currently available to the Commission is not sufficient for the Commission to evaluate how the Company is addressing needed improvements.

9. Test year net operating income after all adjustments is $128,972,996. The proper net-to-gross conversion factor is 1.568135 to derive the revenue needed to produce a given level of net operating income.

10. USWC's adjusted Washington intrastate rate base is $1,531,873,736.

11. The Commission accepts as appropriate for use in this proceeding the decisions made for ratemaking purposes in Docket No. UT-950200 regarding the Company's capital structure and cost of money.

12. A deficiency of $58,834,001 exists in USWC's adjusted test-year revenues under the Company's presently-effective rates and the rates authorized in Docket No. UT-950200 but subject to judicial stay, based upon the findings found appropriate herein.

13. The rates and charges for telecommunications service in USWC's existing tariff, as modified by the result of the Commission order in Docket No. UT-950200, produce revenues and net operating income that do not produce reasonable compensation for providing

telecommunications service in the State of Washington and are not fair, just, or reasonable. Revisions of rates and charges made in accordance with the findings and instructions in this Order will yield a fair rate of return on USWC's rate base, and if filed pursuant to the authorization herein will be fair, just, reasonable, and sufficient.

19. The Company's "customer service guarantee" program, which includes a free cellular telephone or cellular credit for customers whose primary service cannot be provided on schedule, fails to meet the needs of many customers. Improvements in the program as described in the body of this Order will meet customer needs.

20. Customers are inconvenienced when appointments are made for installation or service, but are not kept, and when commitments for the installation or availability of service are not met. A $50 credit for customers whose appointments or commitments are not met would recognize that inconvenience and provide incentive to the Company to avoid missed appointments and commitments.

VII. CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of this proceeding and all parties to this proceeding.

2. The test year adjusted results of operation and rate base herein found to be appropriate should be adopted for regulatory purposes.

3. The tariff revisions filed by USWC in this proceeding should be rejected. USWC should be authorized to refile revisions that will effect an increase in annual revenues of $58,834,025, consistent with instructions in the body of this Order.

4. The Commission should order USWC to modify its customer service guarantee program as described in the body of this Order and to institute a payment of $50 to customers for whom the Company misses appointments or fails to meet commitments, under the terms and conditions described in the body of this Order.

5. The Commission should be directed to work with Commission Staff and Public Counsel to develop a means of reporting investment, as noted in the body of this order.

6. All motions made during the course of this proceeding that are consistent with the findings, conclusions, and Order herein should be granted; those that are inconsistent should be denied.

Based on the foregoing findings, reasoning, conclusions, ultimate findings, and conclusions of law, the Commission makes and enters the following Order.

ORDER

The Commission ORDERS That:

1. The tariff revisions filed by U S WEST Communications, Inc. on August 29 , 1997, in this proceeding are rejected.

2. USWC is directed to improve customer service quality and to achieve service quality comparable to that which it offered in 1991 when measured by standards specified in this order and in Docket No. UT-950200. USWC shall improve its customer service guarantee program by reducing the waiting period for cellular service, cellular credit, or voice mail, to five days and shall notify all eligible customers of the program no later than the point they become eligible. USWC shall pay customers $50 for missed appointments and commitments, consistent with instructions in the body of this order.

3. The Company is directed to work with Commission Staff and Public Counsel to develop an investment reporting methodology, consistent with the instructions in the body of this order.

4. USWC is authorized to refile tariff revisions consistent with the terms of this order, and is directed to do so no later than January 22, 1998. The tariffs shall bear an effective date of February 1, 1998.

5. The filings authorized or directed in this Order shall reflect no retroactive rate treatment and shall be strictly limited to matters required or authorized in this Order. The filings shall bear the notation, "By authorization of Order of the Washington Utilities and Transportation Commission, Docket No. UT-970766."

6. The Company shall file revisions for services whose tariffs have been subject to a judicial stay, and have not been approved by the Commission, by specifying the increase authorized herein, by showing the resulting rate, and by specifying that the proposed tariff supersedes any filing previously made for the affected services. Such revisions shall also bear an effective date of February 1, 1998.

7. Material in support of the manner in which the tariffs are constructed and in which the revenues herein authorized for USWC's telephone operations is obtained shall be submitted simultaneously with the filing to which it relates. Each filing shall be accompanied by a brief description of what the Company has accomplished by the filing and how it complies with